

Sample Multiple-Choice Questions

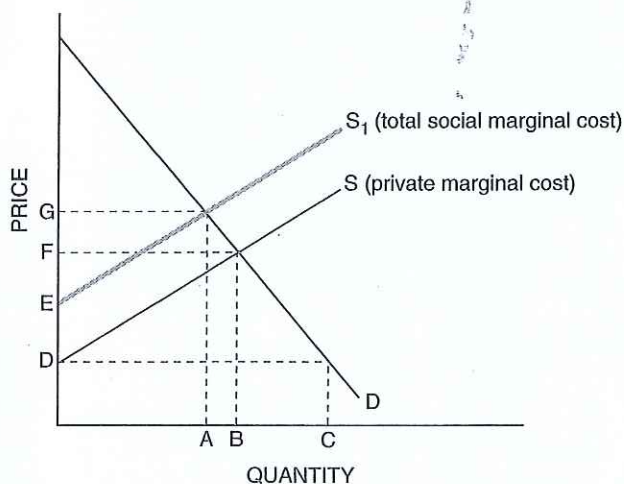
Circle the letter of each correct answer.

1. Which of the following characterizes a public good?
 - (A) People who do not pay for the good can be excluded from using it.
 - (B) If one person uses the good, it does not prevent others from using it.
 - (C) It is easy to determine who must pay for the good.
 - ☐ (D) The good is produced by the public sector.
 - (E) The good exhibits positive externalities.
2. The free rider problem is associated with
 - (A) all market goods.
 - (B) goods that are exclusionary.
 - (C) bus transportation.
 - (D) the production of public goods.
 - (E) the production of public transportation.
3. Which of the following best meets the criteria of a public good?
 - (A) A phone card
 - (B) An airline ticket
 - ☐ (C) National defense
 - (D) A college education
 - (E) A restaurant
4. The market system fails to produce public goods because
 - (A) there is no need or demand for such goods.
 - (B) private firms cannot restrict the benefits of such goods to consumers who are willing to pay for them.
 - (C) public enterprises can produce such goods at lower cost than can private enterprises.
 - (D) their production seriously distorts the distribution of income.
 - (E) a person unwilling to pay can be excluded from the benefits that the product provides.
5. Which of the following are economic functions of government?
 - I. Enforcing laws and contracts
 - II. Providing public goods
 - III. Correcting market failures
 - (A) I only
 - (B) II only
 - (C) III only
 - (D) II and III only
 - (E) I, II, and III
- ☒ 6. In a market economy, the distribution of income is
 - (A) equitable because people who are willing to work earn income.
 - (B) primarily determined by the prices of scarce resources people own.
 - (C) primarily determined by the government through its power to tax.
 - (D) distributed on the basis of need.
 - (E) always more equal than in a command economy.

HAVE A
GO!

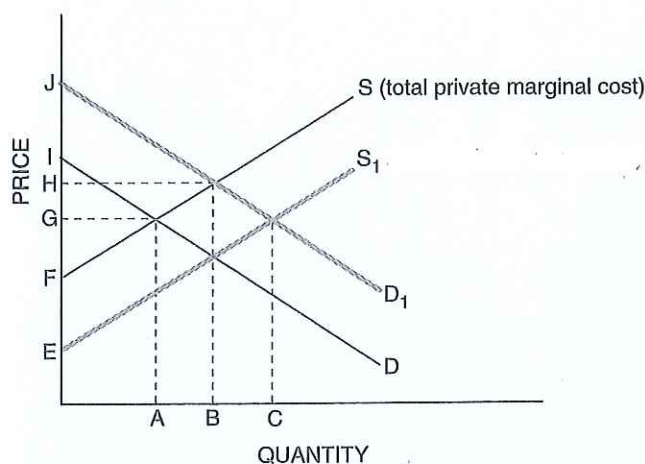
7. If the production of a good creates negative externalities, the private market will produce
- (A) too much of the good at too low a price.
 - (B) too much of the good at too high a price.
 - (C) too little of the good at too high a price.
 - (D) too little of the good at too low a price.
 - (E) the right amount of the good at the correct price.
8. If the production of a good creates positive externalities, the private market will produce
- (A) too much of the good at too high a price.
 - (B) too much of the good at too low a price.
 - (C) too little of the good at too low a price.
 - (D) too little of the good at too high a price.
 - (E) the right amount of the good at the correct price.

Use the supply and demand graph below to answer questions 9, 10 and 11. In the graph, B is the current equilibrium level of output of this product, and A is the optimal level of output from society's perspective. S is the original supply curve without a tax, and S_1 is the new supply curve.



9. This graph indicates that there are
- (A) spillover benefits from the production of this product.
 - (B) spillover costs from the production of this product.
 - (C) too few resources devoted to the production of the product.
 - (D) positive externalities from the production of the product.
 - (E) no spillover costs or benefits associated with the production of the good.
10. One solution to this externality problem is to
- (A) give consumers a subsidy of the amount FG.
 - (B) give producers a subsidy of the amount AB.
 - (C) tax producers by the amount DE.
 - (D) tax consumers by the amount EF.
 - (E) tax consumers by the amount DG.
11. If the government corrects this externality problem with a tax so that all the costs are included in the cost of production, then the product price will be
- (A) A.
 - (B) D.
 - (C) E.
 - (D) F.
 - (E) G.

Use the supply and demand graph below to answer questions 12, 13 and 14. In the graph, A represents the current equilibrium level of output of this product, and B represents the optimal level of output from society's perspective.



12. This supply and demand graph indicates that there are
 - (A) spillover benefits from the *consumption* of this product.
 - (B) spillover costs from the *production* of this product.
 - (C) too many resources devoted to the production of this product.
 - (D) negative externalities from the production of this product.
 - (E) no spillover costs or benefits to society.
13. Assume the government decides to correct this externality by providing a subsidy to producers. This can be demonstrated as a
 - (A) shift in the demand curve from D_1 to D .
 - (B) shift in the supply curve from S to S_1 .
 - (C) shift in the supply curve from S_1 to S .
 - (D) shift in both the demand curve from D to D_1 and the supply curve from S_1 to S .
 - (E) shift in both the demand curve from D_1 to D and the supply curve from S to S_1 .
14. The amount of the subsidy to be given to correct this externality problem is
 - (A) AB.
 - (B) BC.
 - (C) EF.
 - (D) GH.
 - (E) AC.
15. Which of the following best summarizes most economists' position on allocating resources to control pollution?
 - (A) All forms of air and water pollution should be eliminated.
 - (B) Government policies to reduce pollution have zero opportunity costs.
 - (C) Pollution should be reduced to the point where the marginal social cost of pollution control equals the marginal social benefit of pollution control.
 - (D) Pollution should be reduced to the point where the total social cost of pollution control equals the total social benefit of pollution control.
 - (E) Pollution should be reduced to the point where the average social cost of pollution control equals the average social benefit of pollution control.
16. Public-choice theory is based on the idea that
 - (A) self-interest motivates participants only in the private sector of the economy.
 - (B) self-interest motivates participants only in the public sector of the economy.
 - (C) self-interest motivates participants in both the public and private sectors of the economy.
 - (D) the interests of society are the main interest of participants in the public sector of the economy.
 - (E) the interests of society are the main interest of participants in the private sector of the economy.